

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT General Services Agency Airport Services	(2) MEETING DATE 11/5/2013	(3) CONTACT/PHONE Janette Pell, General Services Agency Director 781-5200	
(4) SUBJECT Request that the Board: 1. Support the Airline Revenue Guarantee Program for San Luis Obispo County Regional Airport, 2. Acknowledge the over \$1 million of non-binding pledges received from the business community during the fund raising campaign for air service to Denver from September 17 through October 11, and 3. Authorize a budget adjustment in the amount of \$212,500 from FC 268- Tax Reduction Reserve to provide the remaining cash match required for the \$500,000 U.S. Department of Transportation Small Community Air Service Development Program Grant received by San Luis Obispo County Regional Airport in February 2010.			
(5) RECOMMENDED ACTION It is recommended that the Board: <ol style="list-style-type: none"> 1. Approve the Airline Revenue Guarantee Program as outlined in this report, and 2. Acknowledge the over \$1 million of non-binding pledges received from the business community during the fund raising campaign for air service to Denver from September 17 through October 11, and 3. Authorize a budget adjustment from FC 268 Tax Reduction Reserves in the amount of \$212,500 to FC 425 Airport Operations, to cover the remaining cash match required by the U.S. Department of Transportation Small Community Air Service Development Program Grant (4/5th vote required). 			
(6) FUNDING SOURCE(S) US DOT Grant: \$500,000 Pre-purchased Ticket Account Pledges: \$1,000,000 Grant Cash Match: FC 268 Tax Reduction Reserves: \$212,500 Funding from Outside Sources: \$37,500	(7) CURRENT YEAR FINANCIAL IMPACT \$212,500	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? No
(10) AGENDA PLACEMENT <input type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ____) <input checked="" type="checkbox"/> Board Business (Time Est. <u>30 min</u>)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: 1314059 <input checked="" type="checkbox"/> 4/5th's Vote Required <input type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input type="checkbox"/> N/A Date: <u>7/23/2013; 3/5/2013; 8/18/2009</u>	
(17) ADMINISTRATIVE OFFICE REVIEW Emily Jackson			
(18) SUPERVISOR DISTRICT(S) All Districts -			

County of San Luis Obispo



TO: Board of Supervisors

FROM: General Services Agency / Janette Pell, Director
781-5205

DATE: 11/5/2013

SUBJECT: Request that the Board: 1. Support the Airline Revenue Guarantee Program for San Luis Obispo County Regional Airport, 2. Acknowledge the over \$1 million of non-binding pledges received from the business community during the fund raising campaign for air service to Denver from September 17 through October 11, and 3. Authorize a budget adjustment in the amount of \$212,500 from FC 268 Tax Reduction Reserve to provide the remaining cash match required for the \$500,000 U.S. Department of Transportation Small Community Air Service Development Program Grant received by San Luis Obispo County Regional Airport in February 2010.

RECOMMENDATION

It is recommended that the Board:

1. Approve the Airline Revenue Guarantee Program as outlined in this report, and
2. Acknowledge the over \$1 million of non-binding pledges received from the business community during the fund raising campaign for air service to Denver from September 17 through October 11, and
3. Authorize a budget adjustment from FC 268 Tax Reduction Reserves in the amount of \$212,500 to FC 425 Airport Operations, to cover the remaining cash match required by the U.S. Department of Transportation Small Community Air Service Development Program Grant (4/5th vote required).

DISCUSSION

On July 23, 2013 the Board directed staff to work with the community and the County's air service development consultant to investigate the creation of an Airline Revenue Guarantee Program for the San Luis Obispo County Regional Airport (SBP). At that time, staff provided specific information relating to the development and success of community airline revenue guarantee programs. Data collected from other airports that have embarked on such revenue guarantee programs was presented and using this information, the report quantified the expected return on investment the San Luis Obispo County community might expect were it to establish a \$1 million supplement to the existing Federal Grant of \$500,000 obtained by the Airport.

On September 17, 2013, the San Luis Obispo County Regional Airport, the Economic Vitality Corporation (EVC), a countywide non-profit economic development organization, and the County's air service development consultant Sixel Consulting Group, Inc. (SCG) invited local business leaders to meetings to provide information about the state of the Airport and information about programs to help businesses save on travel costs. For many years local businesses and the traveling public have urged the County for more flights. Our communities and local businesses requested more flights to a wider range of destinations. One particular airline has an interest in providing non-stop flights between Denver and San Luis Obispo and they have asked our community to show their support for such service. The business community acted swiftly and pledged over \$1 million in non-binding contributions within the three week fundraising campaign.

Background

Since 2008, the EVC and the Airport have worked closely together to regain over 90% of the service that was lost when two airlines stopped serving the airport in 2008. Since then, the organizations have collaborated to obtain a federal grant for \$500,000, and commission a market analysis of traveler preferences and opportunities for more flights. The analysis showed that 48% of air travelers in the county use other airports.

In August 2009, the Airport requested authorization to submit, accept and sign a grant application for allocation of funds from the U.S. Department of Transportation (DOT) Small Community Air Services Development Program (SCASDP). In February 2010, the County was notified receipt of \$500,000 from the SCASDP. The SCASDP requires a 50% or \$250,000 match for a total amount of \$750,000 for airline guarantees. County Airports has already received contributions in the amount of \$37,500 from the San Luis Obispo Council of Governments (SLOCOG) and an anonymous donor, and needs an additional \$212,500 to secure the total cash match required by the grant.

In July 2013, staff presented a report on the purpose of the airline revenue guarantee programs. These programs are intended to offset the risk to an airline entering a new route in a market. A start-up flight can take a year to be profitable for the airline operator. A revenue guarantee program can be effective in recruiting and establishing a successful route and can be an important part of any small community's strategy to develop new passenger airline service. Airline revenue guarantee strategies come in two forms: 1. A direct incentive to help offset an airline's start-up costs; and /or 2. A pre-purchased travel program, which is supported by binding pledges from users of commercial air travel. The proposal being presented today is a combination of both revenue guarantee strategies:

1. The over \$1 million in pledges will go towards pre-purchased tickets and will ensure a certain number of enplanements for the airline.
2. The \$550,000 SCASDP grant and the cash match of \$250,000 establish the incentive to be used if the airline does not meet forecasted profits.

San Luis Obispo County has been in discussion with United Airlines regarding service to Denver. United Airlines has suggested developing an Airline Revenue Guarantee Program for service to Denver as our most likely, if not our only viable option to obtaining this service. Working with SCG and based on the knowledge of United's risk in the San Luis Obispo County market, a target of \$1.5 million total (including pledges for ticket purchases and revenue incentives) was set for the Airline Revenue Guarantee Program.

To date, over 50 businesses have pledged a total of over \$1 million to support a pre-purchased travel program. This far exceeded the original goal of \$750,000. Additionally, the County has received \$500,000 from the SCASDP to cover the incentive portion of the program. County Airports has secured \$37,500 of the needed \$250,000 required for the grant cash match. The County is being asked to contribute \$212,500 for the remaining cash match required by the grant.

Next Steps

The County of San Luis Obispo, EVC, and SCG have a meeting scheduled at the United Airlines headquarters in Chicago on December 2, 2013. If United Airlines likes the County's Air Service Guarantee Program and air service is scheduled for the San Luis Obispo County Regional Airport, the following will need to occur:

1. The over \$1 million in pledges from the business community will need to be converted to pre-purchased ticket accounts. SCG will contact the businesses that made pledges and convert those pledges into ticket accounts. This will require businesses to pre-purchase airline tickets. This process will begin as soon as United gives the County the go ahead to proceed. This won't happen unless United is reasonably certain they will be launching services. If for some reason the pre-purchased ticket accounts don't equate to a \$1 million, plans for additional air service would be in jeopardy.
2. The County would need to agree to revenue guarantees for a two year period. This will require a contract between the airline and the County. The contract will have a target revenue number per flight, including United's margin (probably 5%). It will also lay out how they report revenue, the County's right to audit their reporting, and the responsibilities for payment if United is under the target revenue number. The County has \$500,000 from the SCASDP grant available and by then would have the required \$250,000 grant matching funds. The County will keep the matching funds in FC 425 Airport Operations.

Potential Outcomes of Airline Revenue Guarantee Program - Incentives

During the two years of revenue guarantees, the incentives will go directly to the airline's bottom line in the event the airline fails to meet its financial targets. There are potentially three outcomes the County can expect:

1. **Airline does not use any incentives:** The airline is able to meet their financial forecasts over the two year revenue guarantee period, and does not need to backfill revenue with incentive funding. In this case, at the end of two years, the SCASDP money reverts back to the DOT for allocation to other airports and the County matching funds will not be expended.

2. **Airline needs to draw some incentives:** The airline finds they are unable to meet their target revenue numbers per flight, including United's margin (probably 5%). In this case, they would submit an invoice for reimbursement to the Airport. The Airport will pay those invoices, and then invoice the Department of Transportation (DOT) for reimbursement. The DOT's share of the program is 67%, so they will send the Airport 67% of the amount on the invoice. The County's matching funds cover the other 33%.

For illustration purposes: if United invoices the airport for a \$100,000 quarterly loss. The Airport pays United the \$100,000. Then, the Airport sends an invoice for \$100,000 to the DOT. The DOT will pay the Airport back \$67,000. The remaining \$33,000 will be paid from the County's matching funds. At this time the remaining fund balance for the \$500,000 SCASDP grant will be \$433,000 and the remaining fund balance for the County's \$250,000 matching funds will be \$217,000.

In this example, at the end of the two years, the \$433,000 SCASDP money reverts back to the DOT for allocation to other airports and the County's remaining \$217,000 in matching funds can be returned to contributors as shown in Table 1.

Table 1

Airline Needs to Draw Some Incentives						
SCASDP Beginning Balance	County Matching Funds Beginning Balance	Invoice from Airline	SCASDP Payment	Matching Funds Payment	SCASDP Ending Balance	County Matching Funds Ending Balance
\$500,000	\$250,000	\$100,000	\$67,000	\$33,000	\$433,000	\$217,000
					Return	Return

3. **Airline needs to draw all incentive:** Airline finds they are unable to meet their financial forecast and ultimately submits invoices totaling \$750,000 for reimbursement. In this case, the Airport will pay those invoices, and then invoice the Department of Transportation (DOT) for reimbursement. The DOT's share of the program is 67%, so they will send the Airport \$500,000. County matching funds cover the other 33% (\$250,000). In this scenario, the entire \$500,000 SCASDP grant will be expended and no money will be returned to the DOT. Likewise, the \$250,000 or 33% of the entire grant will have been expended and no money will remain with the County and other contributors.

In summary, the incentive money will only be used in the event that United Airlines begins providing non-stop flights between Denver and San Luis Obispo, and that service is not profitable for the airline. This Airline Revenue Guarantee Program provides money on hand to make the airline whole if the flight isn't profitable. In the event the airline pulls out prior to the two year commitment, the businesses who pre-purchase tickets could expect a refund or be able to use the tickets on flights to Los Angeles and San Francisco. As shown above, if the guarantee amount is not used, the money reverts back to the DOT for allocation to other airports and the local match can stay with the County and go back to its contributors.

OTHER AGENCY INVOLVEMENT/IMPACT

The Economic Vitality Corporation, Sixel Consulting Group, and the Airport have worked collaboratively over the past five years to bring new air service to San Luis Obispo County Regional Airport. Additionally, there were over 50 businesses that generously pledged a total of over \$1 million to support a pre-purchased travel program to bring new air service to San Luis Obispo County Regional Airport. The San Luis Obispo Council of Governments (SLOCOG) committed \$25,000 to this effort and an anonymous contribution in the amount of \$12,500 was also received.

FINANCIAL CONSIDERATIONS

While the County's successful Airline Revenue Guarantee Program will not assure new air service to Denver, the involvement of the public and private entities within the community goes a long way in providing valuable contributions and enhances the potential of a positive outcome for airline recruitment and retention. The business community has demonstrated its support by pledging over \$1 million for pre-purchased ticket accounts. The County and EVC sponsored

the application and acceptance of the SCASDG in the amount of \$500,000. Other stakeholders in the region have contributed \$37,500, including a \$25,000 donation from SLOCOG. Should the Board approve the budget adjustment from FC 268 Tax Reduction Reserves in the amount of \$212,500; the County will have the required \$250,000 needed for the matching funds required for the SCASDG grant.

Table 2 summarizes the Airline Revenue Guarantee Program San Luis Obispo County has developed. In total, the County will have exceeded its goal of \$1.5 million for the Airline Revenue Guarantee Program. The total airline revenue guarantee is estimated at \$1.75 million, \$250,000 over the initial target.

Table 2

San Luis Obispo County Airline Revenue Guarantee Program		
Source of Funds	Available	Notes
Business Pre-Purchased Ticket Account Pledges	\$1,000,000	Pre-purchased travel program
SCASD Grant	\$500,000	Incentive
Currently on Account/Grant matching funds	\$37,500	Incentive
County contribution/Grant matching fund	\$212,500	Incentive
Total	\$1,750,000	

RESULTS

The successful creation of an airline revenue guarantee program was accomplished in partnership and collaboration with the business community. The recruitment of additional air service would contribute to maintaining a prosperous community.